

**REPORT ON EXAMINATION**  
**OF THE**  
**CHRISTIANA CARE HEALTH PLANS, INC.**  
**AS OF**  
**DECEMBER 31, 2006**

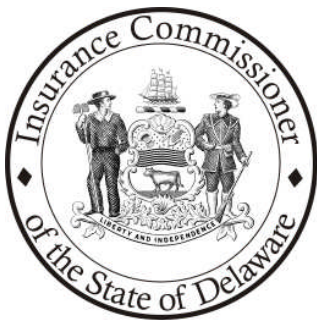
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

**CHRISTIANA CARE HEALTH PLANS, INC.**

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Hardy

DATE: 16 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 16TH DAY OF JUNE 2008.

Matthew Denn  
Insurance Commissioner

**REPORT ON EXAMINATION**  
**OF THE**  
**CHRISTIANA CARE HEALTH PLANS, INC.**  
**AS OF**  
**December 31, 2006**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", is written over a horizontal line.

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 16TH Day of JUNE 2008.

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April 25, 2008

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority 08-011, an examination has been made of the affairs, financial condition and management of the

**CHRISTIANA CARE HEALTH PLANS, INC.**

hereinafter referred to as "CCHP" or "Company", incorporated under the laws of the State of Delaware. The examination was conducted at 200 Hygeia Drive, Newark, DE.

The report of such examination is respectfully submitted herewith.

## **SCOPE OF EXAMINATION**

The last examination was conducted as of December 31, 2001. This examination covers the period January 1, 2002 to December 31, 2006. Because of the run-off status of the Company and the payment of two large amounts to the Sole Member, which is discussed below, the examination placed increased emphasis on the current (year end 2007) situation of CCHP and presented financial information for both December 31, 2006 and December 31, 2007.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

As noted in the History section of this report, in 2005, the Company sold its existing business to Blue Cross Blue Shield of Delaware (BCBSD). The examiners visited the offices of BCBSD in Wilmington, Delaware, to review records and to interview BCBSD management as per the sale and run-off of CCHP's business.

## **HISTORY**

The Company was formed in January 1994 as MCD Health Services Corporation, which was established as a membership corporation. The Company commenced operations on January 1, 1996 and operated as a non-profit Limited Health Services Corporation. CCHP files a tax

return under Section 501c(4) of the Internal Revenue Code. The Company's current name was adopted in 1997. As per the 2006 Annual Statement, CCHP's sole member is Christiana Care Health System.

In 1996, CCHP took control of the Delaware Health Plan Consortium, Inc. (DHPC). Effective December 31, 1998 DHPC discontinued offering health benefit plans in the State of Delaware and in 2005 DHPC was dissolved.

The Company is currently non-operative.

While CCHP was in operation, the Company consisted of Mid-Atlantic Health Plan (MAHP) and First State Health Plan (FSHP).

MAHP provided health care coverage to employer groups and third party administrative services to self-insured employer groups.

FSHP provided health care coverage to Medicaid recipients in the State of Delaware under a contract with the Delaware Department of Health and Social Services. Effective July 1, 2002, CCHP became the sole Medicaid managed care underwriter in the State of Delaware, which resulted in total membership of approximately 88,000.

In February, 2004, CCHP decided not to submit a proposal to the State of Delaware to renew the Medicaid contract. The Company continued to insure the Medicaid population through June 30, 2004.

On February 5, 2005, CCHP and Blue Cross Blue Shield of Delaware (BCBSD) entered into an Asset Purchase Agreement to sell all member health insured plans and contracts issued and administered by CCHP, all physical electronic records, claims data and all intellectual property. CCHP received a consideration of \$3,000,000 under this agreement. The Delaware

Insurance Department approved the sale on May 4, 2005 and the agreement was executed May 15, 2005.

Concurrent with the Asset Purchase Agreement, the Company and BCBSD entered into an Assumption Reinsurance Treaty whereby, effective May 16, 2005, BCBSD assumed 100% of the Company's obligations and liabilities for the business noted above. CCHP provided support to BCBSD for the processing and transition of members converting to BCBSD; this support ended December 31, 2006.

On a quarterly basis following the close of the Asset Purchase Agreement, BCBSD paid CCHP \$125.00 for each risk member that transitioned to or renewed with BCBSD prior to or upon such member's first renewal date.

Additionally, as part of the Asset Purchase Agreement, CCHP received a bonus based on the Medical Loss Ratio, excluding Administrative Service Contracts, through June 30, 2006. In August, 2006, CCHP received the maximum bonus, \$1,000,000, stipulated in the Agreement.

### **MANAGEMENT AND CONTROL**

At the time of the previous examination, and through the 2005 Annual Statement, the Company's Sole Member was reported as Christiana Care Corporation. During 2005, the Company's Sole Member changed its legal name to Christiana Care Health System (CCHS) and the Company reported the Sole Member as such beginning with the March 31, 2006 Quarterly Statement.



At December 31, 2006, the Company reported the following members of the Board of Directors:

Robert Richards  
Helen Foss  
Robert Laskowski  
Benjamin Shaw  
William Wade

Effective March 12, 2007, all of the directors listed above resigned. On March 12, 2007, the CCHS Board of Directors met and appointed the following individuals as Directors of CCHP:

Thomas L. Corrigan, Chairperson  
Richard B. Ellis, Jr.  
Brenda K. Pierce, Esquire

The make-up of the Board of Directors remained unchanged through December 31, 2007. The Company's Sole Member, in its board meeting held on January 14, 2008, re-appointed the three existing directors of the Company to the Board of CCHP for a one-year term ending November, 2008.

### **GROWTH OF COMPANY**

The following information was obtained from the Company's filed Annual Statements.

<u>Year</u>	<u>Assets</u>	<u>Capital &amp; Surplus</u>	<u>Revenue</u>	<u>Net Income</u>	<u>Member Months</u>
2001	\$56,491,889	\$34,154,114	\$126,104,105	\$10,718,243	662,172
2002	68,714,228	38,424,641	192,800,361	4,257,704	975,972
2003	86,707,269	6,510,100	246,810,152	(38,386,438)	1,247,364
2004	19,222,360	7,083,184	145,695,740	-2,554,904	701,851
2005	12,181,847	8,656,798	14,321,439	248,591	49,330
2006	6,194,982	4,838,870	0	1,985,045	0
2007	355,923	332,789	0	989,701	0

For 2003, CCHP reported an underwriting loss of \$40,406,758, which was primarily attributable to the Medicaid business and was the reason for the Company withdrawing from the Delaware Medicaid program in 2004. In June 2003, CCHP accrued a premium deficiency reserve of \$25,526,647, indicating that the premiums charged on the Medicaid business did not cover projected costs. The resulting losses caused the Company's total adjusted capital to fall below the mandatory-control level as per the NAIC's Risk-Based capital calculation. The Company's Sole Member made a surplus contribution of \$8,000,000 in December 2003 to remedy the Risk-Based capital deficiency. By that time, the Company had received a cumulative \$71,000,000 in contribution from the Sole Member.

As noted previously, CCHP sold its business in 2005 and was placed in run-off. In both 2006 and 2007, the Company made payments constituting return of capital of \$6,000,000 to Christiana Care Health System. Both payments were approved by the Delaware Insurance Department.

### **TERRITORY AND PLAN OF OPERATION**

Effective May 15, 2005, CCHP ceased operations and became responsible only for claims that had occurred at or prior to that date. Claims occurring after May 15, 2005 became the responsibility of Blue Cross Blue Shield of Delaware.

CCHP reported the following amounts for Claims Unpaid;

December 31, 2005	\$896,000
December 31, 2006	101,861
December 31, 2007	630

The immediate future plans for the Company involve maintaining the Certificate of Authority with the Delaware Insurance Department for the possibility of re-entering the

insurance market at some point, and the utilization of \$44,711,173 of cumulative operating loss carryforwards. Management has indicated there are no plans to activate the Company in the foreseeable future.

### **REINSURANCE**

As noted in the History section of this report, effective May 16, 2005, BCBSD assumed all of the Company's obligations for the Mid-Atlantic Health Systems business going forward from that date.

Prior to the Company selling its business, a ceded excess of loss agreement was in place with Allianz Life Insurance Company of North America. Allianz provided up to \$2,000,000 per member over all contract years in excess of an attachment point of \$150,000.

### **FINANCIAL STATEMENTS**

The Company's financial position on December 31, 2006 and the results of operations for 2006 are presented below. Also provided are financial statements that reflect the Company's position as of December 31, 2007 and the results of operations for 2007.

# **ASSETS –DECEMBER 31, 2006**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Cash	\$6,021,894		\$6,021,894
Investment Income			
Due and Accrued	23,675		23,675
Net Deferred Tax			
Asset	15,214,646	\$15,214,646	0
Furniture and			
Equipment	404,218	404,218	0
Prepaid Expense	98,049	98,049	0
Amounts			
recoverable			
under Assumption			
Reinsurance Agmt	142,909		142,909
Other receivables	1,027	1,027	0
Receivable from			
parent,			
subsidiaries and			
affiliates	<u>8,932</u>	<u>2,428</u>	<u>6,504</u>
Totals	<u>\$21,915,350</u>	<u>\$15,720,368</u>	<u>\$6,194,982</u>

## **LIABILITIES, CAPITAL AND SURPLUS DECEMBER 31, 2006**

		Notes
Claims unpaid	\$101,861	
Unpaid claims adjustment expenses		
Aggregate health policy reserves	1,126,712	1
Current federal income taxes payable	55,000	
General expenses due and accrued	10,609	
Amounts payable under Assumption		
Reinsurance Agreement	<u>61,930</u>	
Total liabilities	<u>\$1,356,112</u>	
Gross paid in and contributed surplus	65,000,000	
Unassigned funds (surplus)	<u>( 60,161,130)</u>	
Total capital and surplus	<u>\$4,838,870</u>	
Total Liabilities, capital & surplus	<u>\$6,194,982</u>	

## STATEMENT OF REVENUE AND EXPENSES-2006

Net Premium Income	\$ <u>0</u>
Hospital/medical benefits	\$(1,003,544)
Other professional services	(15,703)
Emergency room and out-of-area	(3,441)
Prescription drugs	23,404
Net reinsurance expense	<u>20,667</u>
Total medical and hospital	\$(978,617)
Decrease in reserves	(427,075)
General administrative expenses	<u>2,145,742</u>
Total underwriting deductions	<u>740,050</u>
Total underwriting loss	(740,050)
Net investment income earned	286,399
Net realized capital losses	(65,922)
Net Investment gain	220,477
Management Services Income	1,100,663
Miscellaneous Income	18,768
Gain on Assumption Reinsurance	<u>1,480,250</u>
Net income before federal taxes	2,080,108
Federal taxes	<u>95,063</u>
Net Income	<u>\$1,985,045</u>

## CAPITAL AND SURPLUS ACCOUNT-2006

Capital and Surplus December 31, 2005	\$8,656,798
Net income	\$1,985,045
Change in non-admitted assets	1,769,840
Change in net deferred income tax	(1,572,813)
Capital Paid In	<u>(6,000,000)</u>
Net change in capital and surplus	<u>(3,817,928)</u>
Capital and Surplus December 31, 2006	<u>\$4,838,870</u>

# **ASSETS-DECEMBER 31, 2007**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Cash	\$351,886		\$351,886
Investment Income			
Due and Accrued	1,341		1,341
Net Deferred Tax			
Asset	15,437,365	15,437,365	0
Receivable from parent, subsidiaries and affiliates	<u>4,200</u>	<u>1,504</u>	<u>2,696</u>
Totals	<u>\$15,794,792</u>	<u>\$15,438,869</u>	<u>\$355,923</u>

# **LIABILITIES, CAPITAL AND SURPLUS DECEMBER 31, 2007**

	Notes
Claims unpaid	\$ 630
Aggregate health policy reserves	0
Current federal income taxes	0
General expenses due and accrued	19,303
Payable to parent, subs and affiliates	2,312
Amounts payable under Assumption Reinsurance Agreement	<u>889</u>
Total liabilities	<u>\$23,134</u>
Gross paid in and contributed surplus	\$59,000,000
Unassigned funds (surplus)	<u>(58,667,211)</u>
Total capital and surplus	<u>\$ 332,789</u>
TOTAL	<u>\$ 355,923</u>

## **STATEMENT OF REVENUE AND EXPENSES-2007**

Net Premium Income	\$ <u>0</u>
Hospital/medical benefits	\$(262,674)
Prescription drugs	(13,482)
Total medical and hospital benefits	\$(276,156)
Decrease in reserves	(1,126,712)
General administrative expenses	<u>950,141</u>
Total underwriting deductions	<u>(452,727)</u>
Total underwriting gain	452,727
Net Investment gain	182,226
Management Services Income	375,723
Miscellaneous Income	25
Net income before federal taxes	1,010,701
Federal taxes	<u>21,000</u>
NET INCOME	<u>\$ 989,701</u>

## **CAPITAL AND SURPLUS ACCOUNT-2007**

Capital and Surplus December 31, 2006	\$4,838,870
Net income	\$ 989,701
Change in non-admitted assets	281,499
Change in net deferred income tax	222,719
Capital Paid In	<u>(6,000,000)</u>
Net change in capital and surplus	<u>(4,506,081)</u>
Capital and Surplus December 31, 2007	<u>\$ 332,789</u>

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1. Aggregate Health Policy Reserves.**

On June 30, 2005, CCHP recognized a loss on discontinued operations of \$2,330,680.

This amount was reduced to \$1,126,712 as of December 31, 2006 and to \$0 by year end 2007.

## **RECOMMENDATIONS**

The examination will offer no recommendations.

## **SUMMARY COMMENTS**

The following items of significance were noted during the examination:

- For 2003, CCHP reported an underwriting loss of \$40,406,758, which was primarily attributable to the Medicaid business and was the reason for the Company withdrawing from the Delaware Medicaid program in 2004. In June 2003, CCHP accrued a premium deficiency reserve of \$25,526,647, indicating that the premiums charged on the Medicaid business did not cover projected costs. The resulting losses caused the Company's total adjusted capital to fall below the mandatory-control level as per the NAIC's Risk-Based capital calculation. The Company's Sole Member made a surplus contribution of \$8,000,000 in December, 2003 to remedy the Risk-Based capital deficiency. By that time, the Company had received a cumulative \$71,000,000 in contribution from the Sole Member.
- On February 5, 2005, CCHP and Blue Cross Blue Shield of Delaware (BCBSD) entered into an Asset Purchase Agreement to sell all member health insured plans and contracts issued and administered by CCHP, all physical electronic records, claims data and all intellectual property. CCHP received a consideration of \$3,000,000 under this agreement. The Delaware Insurance Department approved the sale on May 4, 2005 and the agreement was executed May 15, 2005.
- Concurrent with the Asset Purchase Agreement, the Company and BCBSD entered into an Assumption Reinsurance Treaty whereby effective May 16, 2005, BCBSD assumed 100% of the Company's obligations and liabilities for the Mid-Atlantic Health Plan business. CCHP



provided support to BCBSD for the processing and transition of members converting to BCBSD; this support ended December 31, 2006.

- In both 2006 and 2007, the Company made payments constituting return of capital, of \$6,000,000 to Christiana Care Health System. Both payments were approved by the Delaware Insurance Department.
- The immediate future plans for the Company involve maintaining the Certificate of Authority with the Delaware Insurance Department for the possibility of re-entering the insurance market at some point, and the utilization of \$44,711,173 of cumulative operating loss carryforwards. Management has indicated there are no plans to activate the Company in the foreseeable future.

### **CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>12/31/2006</u> <u>Examination</u>	<u>12/31/2001</u> <u>Examination</u>	Changes Increases (Decreases)
Assets	\$6,194,982	\$56,491,889	\$(50,296,907)
Liabilities	\$1,356,112	\$22,337,775	\$(20,981,663)
Capital and Surplus	\$4,838,870	\$34,154,114	\$(29,315,244)

The Company is inactive. At year end 2007, CCHP reported the following:

Assets	\$355,923
Liabilities	\$23,134
Capital and Surplus	\$332,789

Respectfully submitted,



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James J. Blair Jr., CFE, CPA  
Examination Supervisor  
Insurance Department  
State of Delaware